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PENTAGON FOR SECRETARY OF DEFENSE DONALD RUMSFELD

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SUBJECT: SCENESETTER: DEFENSE SECRETARY RUMSFELD'S NOVEMBER  
13-14 VISIT TO PANAMA

REF: A. PANAMA 2105  
[1](#)B. PANAMA 2452

Classified By: AMBASSADOR LINDA E. WATT FOR REASONS 1.4 (B) AND (D)

#### SUMMARY

[1](#)1. (C) On behalf of Embassy Panama I would like to extend our warmest welcome on your upcoming November 13-14, 2004 visit to Panama. Your presence here as the government of Martin Torrijos enters its third month signals the great interest of the United States in strengthening our excellent relations with the Panamanians. (Secretary of State Colin Powell visited Panama on November 3, 2003 to attend Panama's Centennial celebrations and on September 1, 2004 to attend the presidential inauguration. See Reftel A.) Cooperation on a wide range of issues -- including security and law enforcement policy -- promises to reach new levels under the new government. Elected as a modernizing, anti-corruption reformer by the largest post-1989 plurality on record, Torrijos has made clear that his most important foreign policy priority is relations with the United States and that he intends to deepen our mutual focus on counter-terrorism capabilities, combating international criminal networks, and expanding trade and investment. Torrijos is the first Panamanian president elected after the handover of the Canal on December 31, 1999 and the final withdrawal of U.S. forces. U.S. relations with Panama are more mature than in the past, based on mutual economic and security interests.

[1](#)2. (SBU) In his September 1 inaugural address, Torrijos clearly identified his government's principal priorities as sustainable economic development and poverty alleviation, investment, fiscal reform, increased government transparency, and job creation. The new president and his Democratic Revolutionary Party (PRD) -- largely purged of its former anti-democratic, anti-U.S. tendencies and holding an absolute majority in the Legislative Assembly -- faced large challenges from the outset: a serious budget shortfall and tide of red ink left by the out-going government; urgently required action to right the nation's foundering retirement and medical system (the Social Security Fund); restoring public confidence in government institutions and the rule of law; completing the Free Trade Agreement negotiations with the United States; launching a more activist and "coherent" foreign policy (including closer relations with Western Europe and a review of Panama's relations with Taiwan and China); and a decision on how to proceed on Canal expansion, leading to a 2005 national referendum. The GOP has responded to the deficit by, among other measures, proposing reductions in security spending, which will adversely affect Panama's ability to respond to transnational threats. End Summary.

#### The Political Landscape: Torrijos and a New Generation

[1](#)3. (SBU) Martin Erasto Torrijos Espino won Panama's May 2, 2004 general elections by a local landslide (47% of the popular vote), while his Democratic Revolutionary Party (PRD) was propelled to a lopsided victory (42 out of 78 legislative seats). Torrijos has surrounded himself with young, primarily US-educated professionals like himself and has changed the face of the PRD by marginalizing "old guard" supporters of former President Ernesto Perez Balladares (1994-99). Torrijos and those closest to him have indicated that they intend to work closely with U.S. officials, especially on security, law enforcement, trade and investment. Overall, his cabinet appointments have been inspired choices -- many of them young technocrats with a pro-U.S. outlook. Most of Torrijos's cabinet appointments are respected professionals without excessive baggage from Panama's 21-year military dictatorship or the PRD's anti-U.S. faction, a promising sign. Anticipated pressures from a

well-entrenched oligarchy could frustrate the Torrijos administration's reform plans.

#### Promoting Good Governance

14. (SBU) After campaigning on a "zero-corruption" platform, Torrijos launched numerous anti-corruption investigations and initiatives in the opening weeks of his administration. His most controversial action was his recent removal and replacement of Supreme Court President Cesar Pereira Burgos, who had passed retirement age, in a bid to clean up Panama's politicized Supreme Court. This Embassy launched a strong Good Governance initiative with Ambassador Watt's 2003 speech against official corruption. That speech resonated firmly with Panamanians from all walks of life and generated front-page headlines. In a more recent speech the Ambassador warned that poverty could pose dangers for democracy and that skewed income distribution and social injustice increase the appeal of unscrupulous populist demagogues. The Embassy currently supports good governance activities directed toward judicial reform, civic education, business ethics, and strengthening the anti-corruption prosecutors' institutional capacity. An important element of the Embassy's Good Governance initiative is its visa revocation program. Based on Embassy recommendations, the State Department recently revoked the U.S. visas of two former senior GOP officials, which provoked a spate of mostly favorable press commentary and huge support (85% according to one poll) from average Panamanians. Several other corrupt officials have lost their visas for money laundering or related issues.

#### Security and Law Enforcement Policy

15. (C) President Torrijos came to office with a clear focus on security matters highly compatible with our own priorities of canal and maritime security and combating terrorism and transnational crime. His government is taking steps to impose order, efficiency, and organization on Panama's security agencies. On May 12, 2004 the U.S. and Panama signed a Proliferation Security Initiative (PSI) Shipboarding Agreement, underscoring the excellent bilateral cooperation that the new GOP has assured us will continue or improve. Despite its intentions, the Panamanian government (GOP) will be hard pressed to find the financial means, for example, to adequately patrol Panama's long Caribbean and Atlantic coastlines or to secure Panama's porous border with Colombia against guerrilla infiltration.

#### Security Cooperation

16. (SBU) Panama's sovereignty sensitivities are slowly receding with recognition that the challenge of securing the Canal and Panama's borders requires a more mature and collaborative bilateral relationship. Panama early on joined the Coalition of the Willing. It signed and, on October 8, 2003, ratified a bilateral Article 98 Agreement. Related to Canal and border security, Panamanians have become much more willing to accept mil-to-mil security training, equipment, and other assistance, as was shown during the August 2004 multinational Panamax naval exercise that centered on Canal defense. The GOP has welcomed Amb. Watt's initiative to increase the number of Medical Readiness Exercises and other DOD humanitarian programs that provide much-needed assistance to rural Panamanians. During last year's New Horizons exercise both the GOP and local press praised U.S. military for constructing schools and clinics. The next New Horizons begins February 2005. Together, these programs highlight the humanitarian side of the U.S. military and foster positive public perceptions of the USG.

#### National Security Planning Workshop

17. (SBU) During August 11-13 the Embassy organized an offsite bilateral National Security Planning workshop, which Torrijos and virtually the entire new cabinet attended, giving us an excellent opportunity to get to know the incoming officials on a personal level and to begin concrete discussions on security matters. As a counterpoint, the GOP recently turned down our proposal to establish an International Law Enforcement Academy (ILEA) in Panama, fearing that political heat could derail its domestic legislative priorities. This demonstrates that sensitivities about U.S. security and law enforcement cooperation still linger.

#### Our Third Border

18. (C) Canal security and its continued viability remain essential to our domestic security and economic interests. Although the present terrorist threat to the Canal is considered low, it remains an inviting, hard-to-defend target. Panamanian planning, risk assessment, layered defenses and security resources are generally well regarded. Continued U.S. training, equipment and other assistance are vital to preempt a terrorist attack. To protect water resources, the Panama Canal Authority (ACP) has committed to match dollar-for-dollar AID's three-year US\$2.5 million integrated watershed management program. Panama committed to a robust maritime security agenda, which has led to its timely adoption of the new International Maritime Organization (IMO) International Shipping and Port Security (ISPS) Code, which entered into force July 1, 2004. Despite significant progress, Panama continues to be an important transit point for drug smugglers, money launderers, illicit arms merchants, and undocumented immigrants heading north. We have every expectation that GOP-Embassy cooperation on these matters will continue to be excellent. While the GOP has pressed us for closer cooperation on intelligence sharing on Canal and maritime issues, U.S. intelligence agencies have failed to respond to GOP proposals that would enhance our own homeland security, despite considerable prodding from this Embassy.

#### Darien, Atlantic Coast

19. (C) Torrijos aims to establish a greater GOP presence at the Panama-Colombia border and along the Atlantic coast to improve civilian-police relations, intelligence gathering, and security. The new government has proposed rehabilitating WWII-era landing strips in the Darien and on the Atlantic Coast, lessening the use of helicopters, and increasing reliance on cheaper-to-operate single-engine fixed-wing aircraft. By improving landing fields and communication with remote areas, Torrijos hopes to lure more teachers and medical personnel to serve there, create local goodwill, and give the government more intelligence capability and control. The Embassy has been working to convince the GOP to pay more attention to the Atlantic coast city of Colon, where a vacuum of state authority has attracted organized violent crime, drug smugglers, and money launderers (including a worrisome Colombian element).

#### Maritime Security

10. (SBU) The GOP has sent strong signals that it intends to clamp down on what it calls abuses countenanced by previous governments in administering Panama's open ship registry and mariner identification documents. Panama's ship registry now is the world's largest and comprises around one-quarter of the world's ocean-going fleet (5,525 large commercial vessels). About 13% of US ocean-going cargo transits the Canal each year. Panama's seafarer registry currently licenses over 264,000 crewmembers. In response to our homeland security concerns, the new GOP had announced intentions to greatly improve security and transparency in documenting ships and the crews that work on them. Panama has privatized and developed some former U.S. military ports and other related facilities. Port services grew dramatically from about 200,000 containers per year in the early 1990s to 2 million by 2003. Panama now boasts the leading complex of port facilities in Latin America.

#### "Legacy" Issue One -- Unexploded Ordnance (UXO)

11. (C) Under the 1979 Carter-Torrijos Panama Canal treaties, the United States was obligated to clean up the former firing ranges (comprising around 2% of the former Canal Zone) "to the point practicable." The USG believes that it has fulfilled that obligation. Any further attempt to remove unexploded ordnance from the former ranges (or "poligonos," as they are called locally) would be dangerous, prohibitively costly, and damaging to the environment, particularly because the former ranges often form part of the rainforest watershed that is critical to Canal operations. The GOP never responded to the USG's offer several years ago of training and technical assistance to foster responsible environmental management of former rangeland areas. Areas where unexploded ordnance remains are not appropriate for development and should be permanently sealed off from human access. The GOP recently built an access road for Panama's second trans-Canal bridge that skirts the former "Empire" firing range, on the west side of the Canal, an action that raises the possibility that people will be injured or killed by UXO in those areas. Unexploded ordnance on the former firing ranges continues to attract comment in the local press. Many Panamanians believe that the USG should be

obligated to "do something" about the UXO problem. Despite that, we believe the present GOP will not make an issue of the poligonos, fearing that doing so will harm bilateral relations. Ambassador Watt has stated repeatedly in public remarks that the USG has fulfilled its treaty obligations.

#### "Legacy" Issue Two -- Unexploded Chemical Weapons on San

Jose Island

12. (C) The issue of UXO in the former firing ranges near the Canal (see para 11 above) and the issue of unexploded chemical weapons on privately-owned San Jose Island often are conflated and confused in the public mind. During World War II U.S., Canadian, and United Kingdom military forces used San Jose Island in the Las Perlas Archipelago to test chemical weapons (such as mustard gas). Several years ago, after local developers identified the island (which lies off Panama's Pacific coast) as a potential tourism site, the Panamanian government filed a complaint with the Organization for the Prohibition of Chemical Weapons (OPCW) in The Hague. An OPCW report, conducted during July 12-18, 2001 and dated Aug. 14, 2001, indicated the presence of numerous intact weapons (500 lb. and 1,000 lb. bombs), partially intact weapons, and fragments of weapons lying on the surface in nine separate sites. Since that time, at least five intact weapons have been found. Following months of negotiation, in the summer of 2003 the USG made a fair and equitable offer to help Panama to clean up the identified unexploded ordnance on the island. The GOP refused the offer on Sept. 5, 2003, mainly because of the offer's "quit claim" language. The issue of chemical weapons on San Jose Island continues to attract much comment in the local and international press. With Panama's rejection of our offer, the USG considers the matter of San Jose Island closed.

#### Foreign Policy

13. (C) Torrijos has made clear that his top foreign policy priority is the United States. Foreign Minister Samuel Lewis Navarro traveled to Washington in May 2004 to meet with Deputy Secretary of State Richard Armitage and other senior officials at State and the NSC. Minister of Government and Justice Hector Aleman traveled to Washington in October 2004 for meetings with Pentagon and State Department officials. Next on the priority list is Colombia, Panama's giant, troubled neighbor, and Torrijos has traveled three times to meet President Uribe. One negative item on that bilateral agenda is the large number of undocumented Colombian immigrants in Panama, conservatively estimated in excess of 100,000 people. Many ordinary Panamanians are growing resentful of illegal Colombians because of job displacement, and the new government has pledged to put an end to illegal immigration practices. Torrijos already has toured capitals in Western Europe and South America and promises a new, more activist, more "coherent" foreign policy to support Panama's global interests. (See Reftel B.) The GOP would like to attract European investment and tourists and is negotiating new direct air routes between Panama and Western European capitals, such as Paris and Madrid.

#### Taiwan/China Rivalry over Panama

14. (C) Panama is Taiwan's most important formal diplomatic relationship. Rivalry between the PRC and Taiwan in Panama will continue to simmer below the surface. In the past Panama has been quite skillful in leveraging its diplomatic relations with Taiwan to extract maximum resources from both sides, in particular from Taiwan. The Moscoso administration's considerably less-than-transparent use of millions of dollars of Taiwan government funds now is a political hot potato in Panama. Both Taiwan and China have made contributions to Panamanian political campaigns.

15. (C) Torrijos has said that a review of relations is warranted. Indeed, there are strong currents within the PRD that favor the PRC over Taiwan. Torrijos has mentioned that Panama's commercial relations with the PRC are becoming important, as more and more China trade passes through the Canal, and as China is poised to become the Canal's number-two user nation. Following PRC Vice Foreign Minister Zhou Wenzhong's June 18 visit to Panama, then-VP-elect Samuel Lewis asked the Ambassador how the United States would view a switch of diplomatic recognition by Panama to the PRC. The Ambassador, after conferring with Senior State Department officials, replied that the United States is "strictly neutral" on recognition but would not fail to note any hint of direct PRC involvement in the Canal. Lewis recently told POL Counselor that "no internal discussions" on the issue had

yet taken place and has assured us repeatedly that Panama would consult closely with the Embassy when and if such discussions occur.

#### International Trade and Investment

16. (C) Economic issues top Panama's agenda with the United States. President Moscoso pushed to move forward quickly on a bilateral Free Trade Agreement (FTA). Negotiations began in April 2004; to date the U.S. and Panama have held five negotiating rounds. The Torrijos administration views a bilateral FTA as imperative to attract investment, increase exports, and make Panama competitive with the CAFTA countries. Substantial work remains. Politically sensitive issues include Panama's requests for expanded access to the U.S. sugar market and U.S. requests for improved agricultural access. Both sides hope to conclude the talks in December 2004.

#### Canal Stewardship

17. (SBU) During the past four years the Panama Canal Authority (ACP) has proven itself an able administrator, turning the Panama Canal into an efficient and profitable business. Since the 1999 handover, the ACP has reduced average transit times by one-third (from 36 hours to 24 hours), has reduced accidents in Canal waters significantly, and has overseen large-scale upgrade and maintenance projects, such as widening the Gaillard Cut to allow simultaneous two-way transits. The ACP also has increased revenues, which in FY2004 exceeded US\$1 billion for the first time.

#### Canal Expansion

18. (SBU) The Torrijos team plans to make Canal expansion a top priority. It expects the ten-year, \$5-7 billion project to construct a third set of Canal locks to be a transforming event for Panama that will provide jobs and set the tone economically for years to come. Given the driving forces of international shipping -- containerization, construction of "post-Panamax" mega-ships currently unable to traverse the Canal, and growing trade between East Asia and the U.S. eastern seaboard -- the expansion is central to maintaining the Canal's future viability. The U.S. Army Corps of Engineers (USACE) has provided feasibility and engineering studies for one set of locks for the proposed expansion and looks forward to further involvement with the ACP (Panama Canal Authority). A constitutionally-required national referendum on the issue is likely in 2005. Actual groundbreaking, if the referendum passes, could be three years off.

#### Colon Free Zone (CFZ) -- A Source of Concern

19. (C) An important pillar of Panama's service-based economy, the Colon Free Zone (CFZ) is the largest duty free zone in the hemisphere and the second largest in the world. Offering more than just duty-free wholesale shopping, the CFZ draws on the strengths of Panama's world-class shipping and financial services to offer cargo services and, especially, credit to its customers throughout Latin America. The "value added" provided by Zone merchants has frequently amounted to helping customers skirt customs duties and exchange rate laws in the importing country. Law enforcement in the zone is weak. More serious criminal (and terrorist) activities could flourish in such an environment. To improve prospects for future growth, the CFZ must address its security and law enforcement weaknesses. The incoming Torrijos administration has already begun to focus on the CFZ's weaknesses by naming a highly respected community activist to the Zone's top slot, and the Embassy is focusing assets on better understanding CFZ financial flows and exploring ways to work with the CFZ administration to strengthen enforcement.

WATT